**CHILDREN'S MEDICAL RESEARCH INSTITUTE**
**(A COMPANY LIMITED BY GUARANTEE)**
**ACN 002 684 737**

**ANNUAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2006**

The financial report was authorised for issue by the directors on 10 October 2006. The company has the power to amend and reissue the financial report.

**Children's Medical Research Institute**
**(A Company Limited by Guarantee)**
**ACN 002 684 737**

**Directors' Report**

**Financial Year ended 30 June 2006**

The Directors submit their report with respect to the Institute for the financial year, in the form required by the Corporations Act 2001. The names of the directors in office at the date of this report are as follows:

| | Meetings held whilst director | Meetings attended whilst director |
|---|---|---|
| Mr R J Atfield (Treasurer) | 7 | 5 |
| Mr J D Bevins | 7 | 6 |
| Professor I Caterson | 7 | 5 |
| Mr C S Cullen | 7 | 7 |
| Mr J A Dunlop | 7 | 6 |
| Mrs C Forster (Vice President) | 7 | 6 |
| Ms E Hallett | 7 | 6 |
| Professor A Kemp | 7 | 6 |
| Assoc. Prof F J Martin (Chairman and President) | 7 | 7 |
| Professor K North | 7 | 5 |
| Mrs P Payne | 7 | 6 |
| Professor P Rowe (retired 24 July 2006) | 6 | 6 |
| Professor G Stewart | 7 | 3 |

Details of the qualifications and experience of directors are contained in the profile of directors in the Annual Report. All directors are members of the Institute.

The principal activity of the Institute in the course of the financial year was to conduct research into the causes, prevention, relief or cure of disease and illness in children. During the financial year there were no significant changes in the nature of the Institute's activity or in the Institute's state of affairs.

The net surplus of the Institute for the year was $8,029,077. In accordance with the constitution, no amount has been paid or declared by way of dividend since the start of the financial year. The Institute operates as a non-profit organisation dependent primarily on public contributions and bequests to meet its expenditure. The operating result for the year compares favorably with the budget. In the opinion of the Directors, no matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect the operations of the Institute, the results of those operations or state of affairs of the Institute in subsequent financial years.

The Institute has complied with all relevant environmental regulations.

During the financial year the Institute paid insurance premiums in respect of a directors' and officers' liability insurance contract insuring its directors, heads of department and senior officers against certain liabilities. The condition of the policy prohibits any further disclosure by the entity.

**Children's Medical Research Institute**
**(A Company Limited by Guarantee)**
**ACN 002 684 737**

**Directors' Report**

**Financial Year ended 30 June 2006**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

A copy of the Auditor's Independence Declaration as required under Section 307C of the Corporations Act 2001 given to the Directors by the lead auditor for the audit undertaken by HLB Mann Judd is included on page 3.

Signed in accordance with a resolution of the directors.

**F J Martin**
Chairman and President

**R J Atfield**
Treasurer

Date: 10.10.06.

**HLB Mann Judd**

Chartered Accountants

## AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Children's Medical Research Institute Limited:

As lead auditor for the audit of Children's Medical Research Institute Limited for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

M. Muller

**M D Muller**
**Partner**

HLB Mann Judd

**HLB Mann Judd**
**(NSW Partnership)**
**Chartered Accountants**

**Sydney**
**9 October 2006**



HLB Mann Judd (NSW Partnership)
Level 19 207 Kent Street Sydney NSW 2000 Australia DX 10313 SSE Telephone +61 (0)2 9020 4000 Fax +61 (0)2 9020 4190
Email: mailbox@hlbnsw.com.au Website: www.hlb.com.au

Children's Medical Research Institute
(A Company Limited by Guarantee)
ACN 002 684 737

## Income Statement

**for the year ended 30 June 2006**

| | Note | 2006 $ | 2005 $ |
|---|---|---|---|
| Revenue from continuing operations | 3 | 23,804,870 | 15,458,018 |
| Expenses from continuing operations | | | |
| Research | | (10,487,515) | (9,537,337) |
| Loss on sale of other financial assets | 4 | - | (723,221) |
| Fundraising | | (2,366,014) | (2,600,475) |
| Administration | 4 | (2,922,264) | (2,737,840) |
| Surplus from continuing operations | | 8,029,077 | (140,858) |

The above income statement is to be read in conjunction with the accompanying notes

Children's Medical Research Institute
(A Company Limited by Guarantee)
ACN 002 684 737

## Balance Sheet

as at 30 June 2006

| | Note | 2006 $ | 2005 $ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 5 | 2,054,649 | 9,880,707 |
| Trade and other receivables | 6 | 2,470,914 | 753,268 |
| Other financial assets | 9 | - | 4,323,206 |
| Inventories | 7 | 273,687 | 336,555 |
| Other assets | 8 | 901,826 | 1,048,511 |
| TOTAL CURRENT ASSETS | | 5,701,075 | 16,342,247 |
| **NON-CURRENT ASSETS** | | | |
| Other financial assets | 9 | 83,037,550 | 60,519,092 |
| Property, plant and equipment | 10 | 13,851,669 | 13,711,409 |
| Other assets | 8 | 25,790 | 36,470 |
| TOTAL NON-CURRENT ASSETS | | 96,915,010 | 74,266,971 |
| **TOTAL ASSETS** | | 102,616,085 | 90,609,218 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 11 | 2,665,531 | 1,151,111 |
| Employee entitlements | 12 | 1,661,959 | 1,650,529 |
| TOTAL CURRENT LIABILITIES | | 4,327,490 | 2,801,640 |
| **NON-CURRENT LIABILITIES** | | | |
| Employee entitlements | 12 | 190,676 | 161,131 |
| TOTAL NON-CURRENT LIABILITIES | | 190,676 | 161,131 |
| **TOTAL LIABILITIES** | | 4,518,166 | 2,962,771 |
| **NET ASSETS** | | **98,097,919** | **87,646,447** |
| **EQUITY** | | | |
| Reserves | 13(a) | 76,015,502 | 73,593,107 |
| Retained funds | 13(b) | 22,082,417 | 14,043,340 |
| **TOTAL EQUITY** | | **98,097,919** | **87,646,447** |

The above balance sheet is to be read in conjunction with the accompanying notes

**Children's Medical Research Institute**
**(A Company Limited by Guarantee)**
**ACN 002 684 737**

## Statement of Changes in Equity

**as at 30 June 2006**

| | Note | 2006 $ | 2005 $ |
|---|---|---|---|
| Total equity at the beginning of the financial year | | 87,646,447 | 80,277,344 |
| Adjustment on adoption of AIFRS to Available for Sale Investments Reserve | | - | 2,095,120 |
| Restated total equity of the beginning of the financial year | | 87,646,447 | 82,372,464 |
| Change in fair value of Available for Sale financial assets | | 2,422,395 | 5,414,841 |
| Surplus for the year | | 8,029,077 | (140,858) |
| **TOTAL EQUITY AT THE END OF THE FINANCIAL YEAR** | | **98,097,919** | **87,646,447** |

The above statement of changes in equity is to be read in conjunction with the accompanying notes.

Children's Medical Research Institute
(A Company Limited by Guarantee)
ACN 002 684 737

## Statement of Cash Flows

**for the year ended 30 June 2006**

| | Note | 2006 $ | 2005 $ |
|---|---|---|---|
| **Cash flows from operating/research activities** | | | |
| Interest received | | 543,577 | 1,292,893 |
| Dividends and distributions received | | 5,386,927 | 2,930,131 |
| Research grants received | | 5,757,135 | 4,210,441 |
| Other income | | - | 23,093 |
| Payments to suppliers | | (2,549,263) | (3,848,909) |
| Payments to employees | | (8,562,586) | (6,858,971) |
| Net cash inflow (outflow) from operating/research activities | 17 | 575,790 | (2,251,322) |
| **Cash flows from fund raising activities** | | | |
| Public donations | | 5,235,886 | 5,272,342 |
| Committee donations | | 447,176 | 483,726 |
| Legacies | | 3,460,410 | 1,119,332 |
| Receipts from sale of merchandise | | 277,199 | 467,405 |
| Payments to suppliers | | (2,003,349) | (2,061,830) |
| Payments to employees | | (486,704) | (538,645) |
| Net cash inflow from fund raising activities | | 6,930,618 | 4,742,330 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale and redemption of Other Financial Assets | | 27,096,358 | 15,089,961 |
| Proceeds from sale of Plant, Property and Equipment | | 176,694 | 202,351 |
| Payments for Plant, Property and Equipment | | (1,405,518) | (1,122,567) |
| Payments for Other Financial Assets | | (41,210,000) | (10,152,847) |
| Net cash inflow (outflow) from investing activities | | (15,332,466) | 4,016,898 |
| Net increase (decrease) in cash and cash equivalents held | | (7,826,058) | 6,507,906 |
| Cash and cash equivalents at the beginning of the financial year | | 9,880,707 | 3,372,801 |
| **Cash and cash equivalents at the end of the financial year** | **5** | **2,054,649** | **9,880,707** |

The above statement of cash flows is to be read in conjunction with the accompanying notes

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Accounting

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001.*

*Compliance with IFRSs*
Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRSs ensures that the financial statements and notes of Children's Medical Research Institute comply with International Financial Reporting Standards (IFRSs).

*Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards*
These financial statements are the first Children's Medical Research Institute financial statements to be prepared in accordance with AIFRSs. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Children's Medical Research Institute until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing Children's Medical Research Institute 2006 financial statements, management has amended certain accounting and valuation methods applied in the AGAAP financial statements to comply with AIFRS. The comparative figures in respect of 2005 were restated to reflect these adjustments.

Reconciliation and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Institute's equity and its net income are given in note 25.

*Historical cost convention*
These financial statements have been prepared under the historical cost convention.

*Critical accounting estimates*
The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Institute's accounting policies. There are no areas considered to have involved significant judgement or complexity, or any estimates considered significant to the financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Other Financial Assets

The Institute has assessed its other financial assets and classified them into two categories:

i. Managed funds as available-for-sale financial assets; and
ii. Debentures, semi-government and government stock and deposits as Held-to-maturity investments.

Management determines the classification of its investments at initial recognition.

Held-to-maturity investments are carried at fair value. Gains or losses arising from changes in the fair value are presented in the income statement in the period in which they arise.

Available-for-sale financial assets are non-derivatives that are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Institute commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs.

Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of available-for-sale financial assets are recognised in equity. When these assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statements as gains and losses from investment securities.

The Institute assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

### (c) Income Tax

The Institute is exempt from income tax.

### (d) Leasehold Buildings and Improvements

The Westmead laboratories are located on land owned by the New South Wales Department of Health and in 1992 the Institute entered into a 50 year lease for the property at a rental of $1 per annum. Accordingly, the buildings and improvements are being amortised over the unexpired term of the lease or the life of the relevant assets, whichever is shorter.

### (e) Depreciation of Property, Plant and Equipment

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment over its expected useful life. The expected useful lives are as follows:-

| | |
|---|---|
| Leasehold Improvements | 50 years |
| Plant and Equipment | 4-10 years |

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(f) Receivables and Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties.

Income receivable on investment activities is accrued in accordance with the terms and conditions of the underlying financial instrument.

Other income received is recognised as revenue when the right to received payment is established.

**(g) Inventories**

Finished goods held for resale are stated at the lower of cost and net realisable value.

**(h) Trade and Other Creditors**

These amounts represent liabilities for goods and services provided to the Institute prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**(i) Employee Entitlements**

***(i) Wages, salaries, annual and sick leave***

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other creditors in respect of employee's services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

***(ii) Long service leave***

A liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and period of services. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(j) Other Current and Non-Current Assets**

During the financial year the Institute contributed $6,953 to the purchase of computer equipment by University of Sydney. The Institute has unrestricted right of use of the equipment. The amount paid has been capitalised and is to be written off over the expected life of the right to use the equipment. The expected life has been determined to be five years.

**(k) Fringe Benefit Tax Concessions**

The Institute has been reclassified as a Public Benevolent Institution and is now exempt from fringe benefits tax up to certain limits for FBT years commencing 1 April 1998.

**(l) Impairment**

Property, plant and equipment and financial assets are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

**(m) Information Relating to the Charitable Fundraising Act, 1991**

***(i) Committee income and expenditure***

The amount shown as income from Committees represents the funds remitted to the Institute by Committees after having deducted Committee fundraising expenses. This amount does not include income from the sale of merchandise by Committees.

All registered Committees are required to submit financial statements prepared in accordance with accounting standards and the provisions of the Charitable Fundraising Act 1991, and independently audited by a registered company auditor or a person approved by the Office of Charities.

At 30 June 2006, there were 36 registered Committees. Of these, 5 Committees were established for promotional purposes or did not undertake fundraising activities or limited their activities strictly to the sale of Institute Christmas cards, and were not required to submit financial statements. A further 2 Committees have not, at the date of this report, submitted financial statements for the year ended 30 June 2006, but these are expected in the near future.

***(ii) Sale of Merchandise***

The amount shown as income from Sale of Merchandise represents the gross income from the sale of a range of products marketed by the Institute. The products are only sold through the Institute, its Committees or the Goodwill Charity Card Shop.

***(iii) Costs of Fundraising - Other***

Other costs of Fundraising include all other aspects of fundraising which have not been allocated to specific appeals. This includes salaries, general advertising, general public relations and promotions activities.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) Information Relating to the Charitable Fundraising Act, 1991 (continued)

#### *(iv) Jeans for Genes*

Figures for Jeans for Genes for the year ended 30 June 2006 reflect income and expenses for the Jeans Day held 5 August 2005 and the Auction held on the same day. Figures for the year ended 30 June 2005 reflect income and expenses from the Jeans Day held 1 August 2004 and Auction held 24 July 2004. All funds raised and expenses involved for the Jeans Auction and the Jeans Day held on 4 August 2006 will be reflected in the figures for the year ended 30 June 2007.

#### *(v) Comparisons of Income and Expenditures*

(i) Total costs of services are direct research costs and expenses and exclude items such as printing and stationery, employment, advertising and depreciation.

(ii) Total expenditure represents direct and indirect research costs and expenses plus capital expenditure.

(iii) Total income received represents the sum of the net surplus from fundraising, investment income, grant income and miscellaneous income.

## 2. LIABILITY OF MEMBERS

The liability of the members is limited by guarantee. Every member of the Institute undertakes to contribute to the property of the Institute in the event of the same being wound up while he/she is a member or within one year after he/she ceases to be a member for payment of the debts and liabilities of the Institute contracted before he/she ceased to be a member and of the costs, charges and expenses of winding up and for the adjustment of the rights of the contributories among themselves such amount as may be required not exceeding one hundred dollars ($100.00). At 30 June 2006, there were 58 members (2005: 58 members).

## 3. REVENUE

| | 2006<br>$ | 2005<br>$ |
|---|---|---|
| **Revenue from continuing operations** | | |
| **Research Operations** | | |
| Interest received and receivable | 411,124 | 963,152 |
| Dividends and distributions received and receivable | 5,386,927 | 2,930,131 |
| Profit on sale of investments | 1,669,215 | - |
| Grants | 6,762,652 | 4,036,558 |
| | 14,229,918 | 7,929,841 |

| | | 2006 $ | 2005 $ |
|---|---|---|---|
| 3. | **REVENUE (continued)** | | |
| | **Fundraising** | | |
| | Public contributions received | 9,143,472 | 6,875,400 |
| | Proceeds from sale of merchandise | 277,199 | 467,405 |
| | | 9,420,671 | 7,342,805 |
| | Total revenue from operating activities | 23,650,589 | 15,272,646 |
| | **Other Revenue** | | |
| | Sundry income | 154,281 | 185,369 |
| | | 154,281 | 185,369 |
| | **Total revenue** | **23,804,870** | **15,458,015** |
| 4. | **EXPENSES** | | |
| | Cost of sales of goods | 124,039 | 241,432 |
| | Depreciation | | |
| | Buildings | 289,423 | 288,345 |
| | Plant and equipment | 771,262 | 782,749 |
| | Total depreciation | 1,060,685 | 1,071,094 |
| | Nets loss on disposal | | |
| | Plant and equipment | 27,878 | 51,090 |
| | Employee benefits provisions | 40,974 | 297,414 |
| 5. | **CASH AND CASH EQUIVALENTS** | | |
| | Cash at Bank | 967,809 | 2,184,244 |
| | Cash on Hand | 600 | 600 |
| | Deposits at Call | 1,086,240 | 7,695,863 |
| | | **2,054,649** | **9,880,707** |

**Deposits at Bank and at call**
The deposits are bearing interest at a rate of 4.25% at balance date (2005: 4.8%).

| | 2006 $ | 2005 $ |
|---|---|---|
| **6. TRADE AND OTHER RECEIVABLES** | | |
| Accrued income | 68,667 | 73,835 |
| Interest receivable | - | 132,453 |
| Distributions receivable | 1,130,227 | 262,454 |
| ATO receivable | 7,750 | 25,773 |
| Committee donations and sales | 1,264,270 | 258,753 |
| | **2,470,914** | **753,268** |
| **7. INVENTORIES** | | |
| Finished Goods (held for re-sale) | **273,687** | **336,555** |
| **8. OTHER ASSETS** | | |
| **Current** | | |
| Prepayments | 881,619 | 1,029,480 |
| Equipment - Right of Use | 20,207 | 19,031 |
| | **901,826** | **1,048,511** |
| **Non-Current** | | |
| Equipment - Right of Use | **25,790** | **36,470** |
| **9. OTHER FINANCIAL ASSETS** | | |
| **Current Financial Assets** | | |
| *Held-to-maturity investments at fair value* | | |
| Debentures | - | 3,572,994 |
| Semi-Government and Government Stock | - | 500,212 |
| Deposits | - | 250,000 |
| | **-** | **4,323,206** |
| **Non-Current Financial Assets** | | |
| *Held-to-maturity investments at fair value* | | |
| Deposits | - | 500,000 |
| *Available-for-sale financial assets at fair value* | | |
| Managed funds | 83,037,550 | 60,019,092 |
| | **83,037,550** | **60,519,092** |

## 10. PROPERTY, PLANT AND EQUIPMENT

| | 2006 $ | 2005 $ |
|---|---|---|
| Leasehold Buildings and Improvements | | |
| At Cost | 14,479,679 | 14,422,280 |
| Less: Accumulated Depreciation | 3,541,327 | 3,251,904 |
| | 10,938,352 | 11,170,376 |
| Building Work In Progress – at cost | 244,153 | - |
| Plant, Furniture and Equipment - At Cost | 9,829,153 | 8,954,575 |
| *Less:* Accumulated Depreciation | 7,159,989 | 6,413,542 |
| | 2,669,164 | 2,541,033 |
| | **13,851,669** | **13,711,409** |

**Reconciliation**

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

| | Leasehold Building & Improvement $ | Building Work in Progress $ | Plant & Equipment $ | Total $ |
|---|---|---|---|---|
| Carrying amount at 1 July 2005 | 11,170,376 | - | 2,541,033 | 13,711,409 |
| Additions | 57,401 | 244,154 | 1,081,454 | 1,383,009 |
| Disposals | - | - | (182,062) | (182,062) |
| Depreciation expense | (289,424) | - | (771,263) | (1,060,687) |
| Carrying amount at 30 June 2006 | 10,938,353 | 244,154 | 2,669,162 | 13,851,669 |

Children's Medical Research Institute
(A Company Limited by Guarantee)
ACN 002 684 737

Notes to the Financial Statements

for the year ended 30 June 2006

| | 2006 $ | 2005 $ |
|---|---|---|
| **11. TRADE AND OTHER PAYABLES** | | |
| Trade Creditors | 970,931 | 312,044 |
| Other Creditors | 961,699 | 355,344 |
| Grants held for future years | 732,901 | 483,723 |
| | **2,665,531** | **1,151,111** |
| **12. EMPLOYEE ENTITLEMENTS** | | |
| **Current** | | |
| Employee Benefits | **1,661,959** | **1,650,529** |
| **Non-Current** | | |
| Employee Benefits | **190,675** | **161,131** |
| **13. RESERVES AND RETAINED FUNDS** | | |
| **(a) Reserves** | | |
| Funds for Perpetual Investment | 65,131,273 | 65,131,273 |
| Available for Sale investment Reserve | 10,884,229 | 8,461,834 |
| | **76,015,502** | **73,593,107** |
| **Movements** | | |
| Balance at the beginning of the financial year | 73,593,107 | 67,226,393 |
| Available-for-Sale Investment Reserve | 2,422,395 | 6,366,714 |
| | 76,015,502 | 73,593,107 |
| **(b) Retained Funds** | | |
| Retained funds at the beginning of the financial year | 14,053,340 | 14,194,198 |
| Net surplus for the financial year | 8,029,077 | (140,858) |
| Retained funds at the end of the financial year | **22,082,417** | **14,053,340** |

## 13. RESERVES AND RETAINED FUNDS (continued)

### (c) Nature and Purpose of Reserves

*(i) Funds for Perpetual Investment*
Funds for Perpetual Investment are an accumulation of prior year retained earnings. These funds are held for purchase of investments.

*(ii) Available-for-Sale Investment Reserve*
Changes in the fair value of investments classified as available-for-sale financial assets are taken to the Available-for-Sale Investment Reserve as described in note 1(b)

## 14. AUDITORS' REMUNERATION

| | 2006 $ | 2005 $ |
|---|---|---|
| Total amounts received, or due and receivable by the auditors of the company for: | | |
| Audit of the accounts | 31,060 | 25,445 |
| Other services | 675 | 4,209 |
| | **31,735** | **29,654** |

## 15. SUPERANNUATION COMMITMENTS

The Institute pays staff superannuation contributions to AustralianSuper. Benefits provided under the Fund are based on accumulated contributions and earnings for each employee. The Institute contributes various percentages of each employee's income. In addition, the Institute pays death and disability insurance for its permanent employees.

There is a legally enforceable obligation for the Institute to contribute to the Fund.

Contributions during the year amounted to $820,781 (2005: $785,991).

## 16. FINANCIAL INSTRUMENTS

### (a) Interest Rate Risk Exposures

The Institute's exposure to interest rate risk arises predominantly from deposits, which bear variable interest rates. The risk associated with interest rates is that any fall in interest rates will reduce future interest cash inflows.

### (b) Credit Risk Exposures

The credit risk on financial assets of the Institute which have been recognised on the statement of financial position, other than investments in shares and managed funds, is generally the carrying amount, net of any provision for doubtful debts.

### (c) Liquidity Risk

The directors do not consider there to be a material risk that the Institute will not be able to meet commitments associated with financial instruments.

## 16. FINANCIAL INSTRUMENTS (cont'd)

### (d) Net Fair Value of Financial Assets and Liabilities

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the Institute approximates their carrying amounts.

Equity investments traded on organised markets have been valued by references to market prices prevailing at balance date. For non-traded equity investments, the net fair value is an assessment by the directors based on underlying net assets.

Although certain financial assets are carried at an amount above fair value, the directors have not caused those assets to be written down as it is intended to retain those assets to maturity.

## 17. RECONCILIATION OF NET CASH OUTFLOW/INFLOW FROM OPERATING/RESEARCH ACTIVITIES TO NET SURPLUS FOR THE FINANCIAL YEAR

| | 2006<br>$ | 2005<br>$ |
|---|---|---|
| Net surplus for the financial year | 8,029,077 | (140,858) |
| Depreciation | 1,060,685 | 1,071,094 |
| (Profit) loss on disposal of fixed assets | 27,879 | 51,090 |
| (Profit) loss on sale of investments | (1,669,215) | 723,221 |
| (Increase) decrease in receivables | (1,717,646) | 202,776 |
| (Increase) decrease in inventories | 62,868 | (94,019) |
| (Increase) decrease in prepayments and other assets | 157,366 | (22,556) |
| Increase in trade creditors and accruals | 1,514,421 | 383,108 |
| Increase in provision for annual leave | (26,755) | 221,992 |
| Increase in provision for long service leave | 67,728 | 95,160 |
| Public contributions received | (9,143,472) | (6,875,400) |
| Receipts from sale of merchandise | (277,199) | (467,405) |
| Payments to employees and suppliers for fund raising | 2,490,053 | 2,600,475 |
| **Net Cash (Outflow)/Inflow from Operating/Research Activities** | **575,790** | **(2,251,322)** |

## 18. CAPITAL COMMITMENTS PLANT AND EQUIPMENT

The Institute has no commitments (payable within 12 months) for capital expenditure not otherwise provided for in these accounts.

## 19. RELATED PARTIES

### (a) Directors

The following persons were directors of the Children's Medical Research Institute at any time during the financial year:

Mr RJ Atfield (Treasurer)
Mr JD Bevins
Professor I Caterson
Mr CS Cullen
Mr JA Dunlop
Mrs C Forster
Ms E Hallett
Professor A Kemp
Assoc. Prof FJ Martin
Professor K North
Mrs P Payne
Professor P Rowe
Professor G Stewart

The non–executive directors receive no remuneration and provided their services on an honorary basis.

### (b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the company during the financial year:

| *Name* | *Position* |
|---|---|
| S Ryall | Company Secretary |
| G Craig | Operations Manager |
| R Reddel | Research Head |
| P Tam | Research Head |
| P Robinson | Research Head |
| E Hardeman | Research Head |
| P Jeffrey | Research Head |
| T Bryan | Research Head |
| A Braithwaite | Research Head |
| P Rowe | Director |

### (c) Key management personnel compensation

| | **2006** **$** | **2005** **$** |
|---|---|---|
| Salary | 943,013 | 1,024,113 |
| Other benefits | 118,152 | 129,173 |
| Post employment benefits | 766,636 | 164,175 |
| Movement in leave provisions including on costs | 134,074 | 74,251 |
| | 1,961,875 | 1,391,712 |

## 20. COMPLIANCE WITH CHARITABLE FUNDRAISING ACT, 1991

The provisions of the Charitable Fundraising Act 1991 and the regulations under the Act and the conditions attached to the authority have been complied with, except that not all monies from fundraising have been paid into a fundraising account which consists of no other income. The Children's Medical Research Institute is satisfied with the internal controls over receipt of monies from fundraising.

## 21. FUNDRAISING INCOME AND EXPENDITURE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2006

| | 2006 $ | 2005 $ |
|---|---|---|
| Gross proceeds from Fundraising Appeals | | |
| Jeans for Genes | 3,655,055 | 4,020,739 |
| Sale of Merchandise | 397,228 | 467,405 |
| Direct Mail | 197,025 | 222,960 |
| Committees | 447,176 | 483,726 |
| Bequests | 3,460,410 | 1,119,332 |
| Others | 1,263,776 | 1,028,643 |
| | 9,420,670 | 7,342,805 |
| Less: Total costs of Fundraising Appeals | | |
| Jeans for Genes | 1,425,109 | 1,622,306 |
| Sale of Merchandise | 124,038 | 241,432 |
| Direct Mail | 143,042 | 120,488 |
| Other | 797,864 | 575,646 |
| | 2,490,053 | 2,559,872 |
| **Net Surplus obtained from Fundraising Appeals** | **6,930,617** | **4,782,933** |

| 22. SOURCES OF FUNDS FOR EXPENDITURE ON CHARITABLE PURPOSES | 2006 $'000 | 2005 $'000 |
|---|---|---|
| The Charitable activity of the Institute is research into understanding the causes of illnesses and diseases, especially in children. | | |
| Expenditure on Charitable Purposes: | | |
| Expenditure on direct services | 11,472 | 10,462 |
| Expenditure on indirect services | 1,089 | 1,205 |
| | 12,561 | 11,667 |
| Capital expenditure | 1,169 | 965 |
| Total expenditure | 13,730 | 12,632 |
| Total expenditure was funded from the following sources: | | |
| Investment income | 4,177 | 2,773 |
| Grant income | 6,106 | 4,135 |
| Other income | 154 | 187 |
| | 10,437 | 7,095 |
| Drawn from reserves* | 3,293 | 5,537 |
| | **13,730** | **12,632** |

* Reserves include donations and other income from fundraising received by the Institute since its inception.

| 23. COMPARISONS OF INCOME AND EXPENDITURE | 2006 $ ('000) | % | 2005 $ ('000) | % |
|---|---|---|---|---|
| Total cost of fundraising/gross income from fundraising | 2,490/9,421 | 26.4 | 2,560/7,343 | 34.9 |
| Net surplus from fundraising/gross income from fundraising | 6,931/9,421 | 73.5 | 4,783/7,343 | 65.1 |
| Total costs of services/Total expenditure | 11,472/13,730 | 83.5 | 10,462/12,632 | 82.8 |
| Total costs of services/Total income received | 11,472/25,862 | 44.3 | 10,462/17,649 | 59.3 |

## 24. SEGMENT INFORMATION

Children's Medical Research Institute operates in the not-for-profit sector in Australia.

## 25. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

### 1. Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004

The Institute has adopted AASB 139 Financial Instruments: Recognition and Measurement as part of the transition to AIFRS. This has resulted in investments that were previously classified as Other Financial Assets and carried at cost being classified as Available-for-Sale Financial Assets and carried at fair value.

This adjustment has resulted in an increase to the carrying value of available-for-sale financial assets of $2,095,120 at the date of transition. This increase in the carrying value is taken to a newly created Available-for-Sale Investments Reserve, resulting in an increase to equity of $2,905,120.

The unit price used to calculate the fair value of these financial assets is pre-distribution. Under AGAAP a receivable was recognised for distributions accrued at balance dated but received after balance date. This receivable is required to be reversed as its value is already recognised in the pre-distribution fair value of the financial assets. At 1 July 2004, the value of the receivable reversed against retained earnings was $951,873.

There were no other material adjustments.

(b) At the end of the last reporting period under previous AGAAP: 30 June 2005

| | Previous AGAAP | Adjustment | AIFRS |
|---|---|---|---|
| **Assets** | | | |
| Distributions receivable | 2,940,950 | (2,940,950) | |
| Other financial assets | 56,380,464 | 8,461,834 | 64,842,29 |
| Total movement in equity | 59,321,414 | 5,520,884 | 64,842,29 |
| Represented by - | | | |
| Available for sale Investments Reserve | - | 8,461,834 | 8,461,83 |
| Retained earnings | 16,994,290 | (2,940,950) | 14,053,34 |
| | 16,994,290 | 5,520,884 | 22,515,17 |

## 25. EXPLANATION OF THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

**(b)** At the end of the last reporting period under previous AGAAP: 30 June 2005 (continued)

The adoption of AIFRS (as noted in 1(a) above) at the end of the last reporting period under previous AGAAP, where available-for-sale financial assets are now carried at fair value, has resulted in an increase in equity of $5,520,884. This increase is a combination of the effect of reversing the receivable recognised for distributions (for the reasons noted above) and increase to the Available-for-Sale Investments reserve of $2,422,394.

This increase in the the Available-for-Sale Investments Reserve resulted in a cumulative balance at the end of the 30 June 2005 financial year of $8,461,834.

There were no other material adjustments.

**2. Reconciliation of profit for the year ended 30 June 2005**

The adoption of AIFRS has resulted in a decrease in the previously recognised AGAAP result from $1,848,219 profit to $140,858 loss. This is due to the reversal of distributions accrued as described above.

**3. Reconciliation of cash flow statement for the year ended 30 June 2005**

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

## 26. CONTINGENT LIABILITY

A Deed of Release has been signed by the Institute with The University of Sydney in relation to the termination payment for the retiring Director. The Deed includes details of amounts payable by the Institute to the University covering entitlements upon termination and unused annual leave and long service leave entitlements.

The amount included in the Deed of Release for unused long service leave is $182,159. The directors of the Institute believe that payments made to the University for the Director's services over many years have included amounts for long service leave, effectively paying some of this amount.

At balance date, no invoice had been received from the University. Discussions with the University have indicated that it is accepted that some payment has been made towards the long service leave entitlements, however the final amount payable has not yet been determined. The amount noted in the previous paragraph is considered to be the maximum amount payable, however the directors believe that the final amount will be less. No provision has been made for this amount as the final payment cannot be reliably determined.

## 27. OTHER INFORMATION

The Institute is a public company limited by guarantee and domiciled in Australia. Its registered office and principal place of business are at:

214 Hawkesbury Road
WESTMEAD NSW 2145

**Children's Medical Research Institute**
**(A Company Limited by Guarantee)**
**ACN 002 684 737**

**Directors' Declaration**

**for the year ended 30 June 2006**

In the directors' opinion:

(a) the financial statements and notes set out on pages 4 to 23 are in accordance with the Corporations Act 2001, including:

(i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the company's financial position as at 30 June 2006 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(c) (i) the Income Statement gives a true and fair view of the results of fundraising appeals for the financial year;
(ii) the Balance Sheet gives a true and fair view of the state of affairs with respect to fundraising appeals;
(iii) the provisions of the Charitable Fundraising Act 1991 and the regulations under the Act and the conditions attached to the authority have been complied with except as outlined in note 20; and
(iv) the internal controls exercised by the Children's Medical Research Institute are appropriate and effective in accounting for all income received and applied from any fundraising appeals.

This declaration is made in accordance with a resolution of the directors.

**F J Martin**
Chairman and President

**R J Atfield**
Treasurer

Date: 10 · 10 · 06

**HLB Mann Judd**

Chartered Accountants

**Children's Medical Research Institute**
**(A Company Limited by Guarantee)**
**ACN 002 684 737**

**Independent Audit Report**

To the members of the Children's Medical Research Institute:

**Scope**

*The financial report and directors' responsibility*

The financial report comprises the balance sheet as at 30 June 2006, and the income statement, statement of cash flows, statement of changes in equity, accompanying notes to the financial statements and the directors' declaration for the year ended 30 June 2006 for Children's Medical Research Institute ("the Institute") as set out on pages 4 to 24.

The directors of the Institute are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error, for the accounting policies and for the accounting estimates within the financial report.

*Audit approach*

We conducted an independent audit in order to express an opinion to the members of the Institute. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance that the financial report is free of material misstatement. The nature of an audit is influenced by several factors including the use of professional judgement, selective testing, the inherent limitations of internal control and the availability of audit evidence which may be persuasive rather than conclusive. Accordingly, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether, in all material respects, the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Institute's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

When determining the nature and extent of our procedures we considered the effectiveness of management's internal controls over financial reporting. Our audit was not designed to provide assurance in relation to internal controls.

HLB Mann Judd (NSW Partnership)
Level 19 207 Kent Street Sydney NSW 2000 Australia DX 10313 SSE Telephone +61 (0)2 9020 4000 Fax +61 (0)2 9020 4190
Email: mailbox@hlbnsw.com.au Website: www.hlb.com.au

HLB Mann Judd

Chartered Accountants

**Children's Medical Research Institute**
**(A Company Limited by Guarantee)**
**ACN 002 684 737**

**Independent Audit Report**
**(continued)**

**Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

The Directors Report attached to the financial statements includes a copy of the Independence Declaration dated 9 October 2006 given to the Directors by the lead auditor for the audit. That Declaration would be in the same terms if it had been given to the Directors at the time this audit report was made.

**Audit opinion**

In our opinion, the financial report of Children's Medical Research Institute is in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of Institute's financial position as at 30 June 2006 and of its performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

(c) in accordance with the provisions of the Charitable Fundraising Act 1991 and the regulations thereto, and money received as a result of fundraising appeals conducted during the financial year has been properly accounted for and applied with those provisions except as outlined in Note 20.

HLB Mann Judd

**HLB MANN JUDD**
**(NSW Partnership)**
**Chartered Accountants**

M. Muller

**Sydney**
**12 October 2006**

**M D Muller**
**Partner**